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The Gazette
BUSINESS
TECHNOLOGY
•SECTION D
Horoscope D4
Trading Highlights D6
BUSINESS EDITOR: DAVID YATES (514) 987-2512
WEDNESDAY, OCTOBER 18, 2000

HOW THEY CLOSED

TSE	10,132.56	–360.47
CDNX	3275.82	–46.79
DOW	10,089.71	–149.09
NASDAQ	3213.96	–76.32
GOLD (N.Y.)	$271.10	–$0.40
DOLLAR	65.80	–0.05
PRIME RATE	7.50	UNCH

See World Markets on Page D6

Capital gain for the Chagnons?

Mini-budget timing appears perfect for wealthy Montreal family

PAUL DELEAN
The Gazette

For Montreal's wealthy Chagnon family, the timing would seem impeccable for a cut in the capital-gains tax, which the federal government is widely rumoured to be planning in a mini-budget today.

The $5.4-billion deal to sell their cable-and-TV company, **Groupe Vidéotron Ltée**, to **Quebecor Media Inc.**, closes tomorrow at 12:01 a.m.

If the Finance Department declares today to be the effective date of a new, reduced capital-gains inclusion rate of 50 per cent (down from 66.66 per cent) – and it indicated this week some of the mini-budget measures could take effect the same day – the Chagnons could be spared tens of millions of dollars in federal taxes, and many millions more in provincial taxes if Quebec ultimately decides to follow suit and harmonize its capital-gains rules.

The Chagnons might also be going a different route.

When the Vidéotron takeover was confirmed last month, Quebecor chairman Pierre-Karl Péladeau mentioned that the Chagnon family was looking to establish a charitable foundation. Reportedly, they wanted the deal structured in such a way as to offer maximum benefit to the foundation.

The foundation apparently has been created, with Louise Perras as president and general manager. But attempts yesterday to get other details about La Fondation Lucie et André Chagnon were unsuccessful. Vidéotron chairman André Chagnon wasn't available and Perras didn't return a phone call.

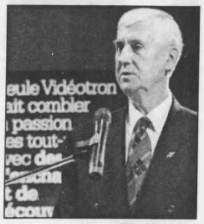
Under Canadian tax rules, contributions of stock to charity receive favourable tax treatment. Donors get a tax receipt for the market value of the donation, and report any capital gains on it at a reduced inclusion rate of 33.33 per cent. (That also could drop to 25 per cent tomorrow if tied to the expected new rate).

The Chagnon family owns 40,785,356 multiple-voting shares and 96,780 subordinate-voting shares of Vidéotron, and has pledged them all under the Quebecor offer.

At the tendered price of $45 a share, the family's holding is worth about $1.8 billion.

Their base cost is private, so it's not clear what their net gain will be. But the company – founded by André Chagnon in 1964 and now headed by his son, Claude – first went public in 1985 at $7.75 a share.

Even before the Quebecor deal, André Chagnon was one of the wealthiest people in the nation – 19th over-all, with a personal fortune estimated at about $400 million, according to a 1996 Financial Post Magazine story.



JOHN MAHONEY, GAZETTE
Vidéotron patriarch André Chagnon in '95.

Jitec given green light for trading

DON MACDONALD
The Gazette

Trading in Jitec Inc. was halted for a second full day yesterday before the company issued two press releases in the late afternoon.

The Montreal Exchange ordered the trading halt Monday and requested that Jitec, a Nuns' Island high-tech company, clarify previous announcements of business deals.

"We are now satisfied with their disclosure," said Louis Doyle, head of the equity division at the ME, after the release of Jitec's statements. "We are going to reinstate trading (this) morning at the opening."

Jitec designs and markets network-computing equipment to businesses, consisting of stripped-down terminals that are connected to powerful off-site servers.

The Quebec Securities Commission is investigating the possibility that Jitec stock trading has been manipulated.

The commission is examining unusual trading patterns since the company's stock began trading July 26.

In the longer of the two press releases yesterday, Jitec gave more details of a $105-million deal with **Canada Payphone Corp.** of Burnaby, B.C.

The two companies originally signed a letter of intent on Aug. 4. A Jitec spokesman said yesterday that the companies have now inked a final contract.

Under the deal, Canada Payphone agrees to promote and distribute 45,000 of Jitec's computer terminals to major hotels "on a best-efforts basis" over 30 months, yesterday's statement said.

MARKETING STARTS IN DECEMBER

"Once the deployment is complete, if all the contract terms are met, the agreement will generate revenues of $105 million to Jitec Inc.," the release states, adding that Canada Payphone will begin its marketing efforts in December.

In its original Aug. 8 press release describing the deal, Jitec said it had "concluded an agreement for the implementation of 45,000 terminals."

Westmount millionaire Herbert Black, who has been critical of Jitec's original Canada Payphone release, said yesterday's statement vindicates his position.

"It's very important that Jitec shareholders should realize when there is or isn't a contract," said Black, president of scrap-metal dealer **American Iron & Metal Co.** "And I appreciate the fact that the Montreal Exchange forced Jitec and Canada Payphone to confirm what the real deal is."

But Black added he still considers the deal to be simply an open-ended marketing agreement. "I challenge whether they will be even able to do 1,000 units, let alone 45,000," Black said.

"They have an agreement to try to put stuff in (hotels). There are no minimums. That's not a contract."

Black maintains he became involved with Jitec last month when he was considering investing in the company. He says he backed away when he became dissatisfied with what he saw of the company, including its press releases.

Please see **JITEC**, Page D4

ANDRÉ PICHETTE, GAZETTE
Tony Mastronardi (left) and Guy Nathan of TouchTunes Digital Jukebox pose with MP3 jukebox at their office on Nuns' Island.

MP3 jukeboxes aim for a hit

Canadian debut in sight, says Nuns' Island firm behind technology

ALISON MacGREGOR
The Gazette

TouchTunes Digital Jukebox Corp. is using MP3 technology to download and play digital music – with the blessing of most major record labels.

In the mid-1990s, the Nuns' Island-based firm developed a technology to download music from a central server using the MP3 format and play songs on a network of digital jukeboxes with touch-sensitive interactive screens.

After signing licensing agreements with major music companies, including **Capitol Records Inc.**, **BMG**, **Universal** and **Warner**, to use digitized copies of their music, TouchTunes brought audiophile favourite **Bose Corp.** on board to design and manufacture its jukeboxes. The machines are made in Saint-Marie-de-Beauce.

"We went straight to the top," said TouchTunes Digital president and chief executive Tony Mastronardi. "This is the best-sounding jukebox on the planet."

Dubbed "Genesis," the first machine was installed in a bar in September 1998. Today, the firm said it has 2,500 jukeboxes across the United States playing 1.2 million songs a week.

Mastronardi said the company is negotiating with record labels for Canadian rights to their music and expects to deploy a fleet of jukeboxes here in the next six months. The company is also negotiating digital-music rights for Britain.

Targeted at habitual jukebox venues – billiard halls, bars and pubs – Mastronardi said Genesis's interactive screen and high-quality sound system are attracting new customers, like upscale cigar lounges.

"Jukebox is still kind of a derogatory term," he said. "People think of it as an old scratchy vinyl thing from the 1950s."

As well, TouchTunes has inked an advertising deal with **United Distillers & Vintners** of Britain. Once a customer has paid for a song, a game or puzzle pops up on the screen promoting one of the company's spirits, like Malibu Rum. If the customer wins the game, he or she is credited with an extra song.

Mark Quigley, a technology analyst at the Yankee Group Canada in Brockville, Ont., said the interactive features of the system can entice customers to spend more time at a particular venue.

TouchTunes was founded at the end of 1998 by Mastronardi and senior vice-president Guy Nathan, a Parisian who was a technology adviser to French president Jacques Chirac when he was mayor of Paris in the early 1990s.

For the first three years, Mastronardi and Nathan invested their personal money and funds from investors, raising about $3.3 million between 1998 and 1997. Patent and entertainment lawyers offered services in return for a piece of equity.

In March 1997, the company received $3 million U.S. in venture-capital funds from the **Société Financière d'Innovation** (Sofinov), a subsidiary of the **Caisse de Dépôt et Placement du Québec**, and the **Société Innovatech du Grand Montréal**.

To date, TouchTunes has received a total of $43.6 million in investments, most of which has come from Innovatech and Caisse subsidiaries Sofinov and **Capital Communications CDPQ**.

In 1994, the company did a reverse takeover of Las Vegas-based **Technical Maintenance Corp.** to get an over-the-counter listing on the Nasdaq exchange. The firm was renamed **TouchTunes Music Corp.**, while TouchTunes Digital of Nuns' Island became a wholly owned subsidiary of the U.S. company.

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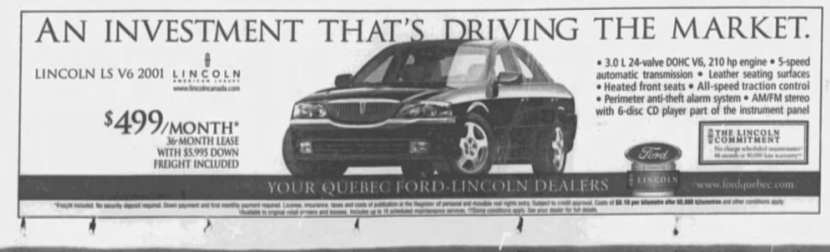
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